

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
November 30, 1996

BALANCE SHEET (continued)

ASSETS

- Property and Equipment - Capital additions were \$700 thousand and \$4.9 million for the month and year-to-date periods ended November 30, 1996, respectively. The Board approved capital budget for FY 97 is \$10.0 million.
- Sale of Property and Equipment - On November 22, 1996 the East Wing Bldg., James Street parking garage and Hemlock Street garage (the "parking garages") were sold to and leased back from Sun-Allegheny Business Trust; a summary of such transaction follows:

Sale price	\$33,290,458
Realtor's commission, transfer taxes and other	(1,874,840)
Net proceeds	31,415,618
Net book value - East Wing Bldg. & parking garages	(15,258,080)
Deferred gain on sale	16,157,538
Deferred gain amortization	
Term of AGH leaseback (months)	360
Monthly deferred gain amortization	<u>\$44,882</u>

The \$16.2 million deferred gain (revenue) recorded on the sale/leaseback transaction is subject to adjustment based upon both review of the final closing documents and calculation of updated property and equipment cost and accumulated depreciation amounts as of October 31, 1996. Such deferred gain is amortized over the lease term (30 years) as defined by FASB #13, such includes the "Primary," noncancelable, term of 20 years; and the "Extended" term of approximately 10 years, since such extended term imposes a penalty on lessee (AGH) in an amount such that renewal appears, at the inception of lease, to be reasonably assured - see Section 3.5, Purchase Option, of draft lease and sublease agreement dated 11/18/96 that requires AGH (lessee) to extend the primary term of such lease for the "Extended" term in order to have the contractual right to purchase any one or more of the leased premises during such extended term.

Additionally, as part of same sale/leaseback transaction, Sun-Allegheny Business Trust prepaid \$790 thousand of ground (land) lease rental to AGH (lessor), such deferred rental revenue will be amortized over the same lease term (30 years) as the \$16.2 million deferred gain on sale noted above.

- Other assets increased \$446 thousand and \$1.8 million for the month and year-to-date periods ended November 30, 1996, respectively. The primary reason for such monthly increase is due to AGH's share of earnings from the Gateway Health Plan, L.P., HMO investment of \$290 thousand. The key reasons for such YTD increase are the \$730 thousand of additional capital contributed to SIDN (cumulative investment in SIDN is \$1.53 million); AGH's share of earnings from Gateway of \$994 thousand; and the \$318 thousand of goodwill, net of accumulated amortization, paid on the acquisition of Franklin Masin's medical practice.

Continued

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
November 30, 1996**BALANCE SHEET (continued)****LIABILITIES AND NET ASSETS**

- Trade Accounts payable decreased \$2.1 million or 5 days of adjusted operating expense from October 31, 1996, to \$23.6 million, which represents 61 days of adjusted operating expense in A/P. Such is based on the Days in Accounts Payable calculation that excludes certain non-trade liabilities.
- Net unrestricted asset transfers to affiliates were \$2.8 million and \$14.0 million for the month and year-to-date periods ended November 30, 1996 as follows:

AIHG	\$6,900
ASRI	4,300
AHERF	2,500
AUHS	300
	<hr/>
	\$14,000
	<hr/>

Continued

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
November 30, 1996

INCOME STATEMENT

NET PATIENT REVENUE

ACUTE INPATIENT

Net Acute inpatient revenue is \$600 thousand or 2.4% OVER budget for the month. Such relatively flat performance results primarily from total admissions falling short of budget by 90 or 3.6%, such is most likely offset by payor and/or case mix and prior period contractual allowance adjustments.

INPATIENT PERFORMANCE HIGHLIGHTS

	ACTUAL	BUDGET	VARIANCE	% VAR
--	--------	--------	----------	-------

NET INPATIENT REVENUE (\$s in thousands)

MC	\$10,390	\$11,281	(\$891)	-7.9%
BC	6,426	4,883	1,543	31.6%
MA	907	1,704	(797)	-46.8%
OTHR	8,047	7,306	741	10.1%
TOTAL	\$25,770	\$25,174	\$596	2.4%

NET INPATIENT MARGIN

MC	43.96%	44.12%	-0.002	-0.4%
BC	40.88%	38.37%	0.025	6.5%
MA	21.59%	32.86%	-0.113	-34.3%
OTHR	56.67%	59.86%	-0.032	-5.3%
TOTAL	44.50%	45.13%	-0.006	-1.4%

CONTRACTUAL ALLOWANCES

MC	\$13,243	\$14,287	(\$1,044)	-7.3%
BC	9,294	7,843	1,451	18.5%
MA	3,294	3,482	(188)	-5.4%
OTHR	6,312	4,990	1,322	26.5%
TOTAL	\$32,143	\$30,602	\$1,541	5.0%

ADMISSIONS

MC	771	881	(110)	-12.5%
BC	687	653	34	5.2%
MA	222	246	(24)	-9.8%
OTHR	701	691	10	1.4%
TOTAL	2,381	2,471	(90)	-3.6%

Continued

JD-DC0002740

**FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
November 30, 1996**

INCOME STATEMENT (continued)

NET PATIENT REVENUE (continued)

OUTPATIENT

Net outpatient revenue is \$1.5 million or 22% OVER budget, such positive result extends the favorable five month year-to-date variance of 21%. Such favorable outpatient results appear to be partially driven by the following key revenue producing centers; OR - O/P surgical cases exceed budget by 119 or 32.0%, Cardiac lab - O/P procedures again significantly exceed budget by 316 or 96.9%.

OPERATING EXPENSES

- Salaries and wages are \$1.0 million or 8.1% over budget, such unfavorable variance includes the following key components. As noted last month, AGH's "merit" salary increase plan implemented September 29, 1996 effectively increased the overall salary expense by approximately 3%, such results in approximately \$350 thousand of unbudgeted salary expense. \$220 thousand of overtime costs that are primarily related to nursing care, such are at least partially volume-driven, i.e., acute I/P days are 810 or 5.8% over budgeted levels. \$111 thousand amortization of the unbudgeted FY 97 performance payment, such expense will be recognized monthly through June 30, 1997.
- Patient care supplies are \$1.1 million or 22% over budget, such unfavorable variance includes the following key components. Medical and surgical supplies are \$796 thousand or 24% over budget, such includes the Operating Rooms expense, which appears to be primarily volume-driven (Total I/P and O/P cases are 338 or 24% over budget; additionally, it should be noted that O/P cases are 119 or 32% over budget. Additionally, as noted above, a \$200 thousand inventory shrinkage reserve was established in November, such amount was expensed to medical and surgical supplies.

12/30/96

FILE: P:\123\AGHFY97\ANAL\HIGH1196.WK4

JD-DC0002741

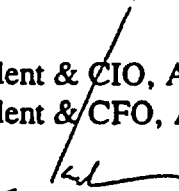
AHERF

***Allegheny Health, Education
and Research Foundation***

D.L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212

MEMORANDUM

TO: Joe Dionisio
Senior Vice President & CIO, AHERF
Senior Vice President & CFO, AGH

FROM: Jack B. Nelson 
Manager, Accounting & Financial Reporting, Pittsburgh

DATE: November 13, 1996

SUBJECT: AGH October 31, 1996 Financial Statements

Enclosed are drafts of the AGH October 31, 1996 long-form and short-form (Board version) interim financial statements and the financial statement highlights for your review and comment.

As always, if you have any questions or comments, please call me at Ext. #2472.

Thank you.

JBN:kw
Enclosures
s:\k\w\jbn\agh896fs.wpd

cc: Steve Spargo
Gary Manion
Al Adamczak
Jack Lydon
Gene Trout
Frank Insana

JD-DC0002742

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended October 31, 1996

BALANCE SHEET

ASSETS

- Net Patient A/R decreased \$2.4 million or 2.0 days in A/R from September 30, 1996, to \$59.5 million, such represents 56.9 days in A/R. Such decrease was primarily related to the \$3.1 million net decrease in Discharged not Final Billed (DNFB) and Inhouse accounts. Gross DNFB Accounts decreased \$14.7 million from September 30, 1996, to \$9.9 million, such significant reduction should positively impact subsequent months operating cash flow.
- Funded depreciation investments increased \$19.1 million from September 30, 1996, to \$133.2 million, such increase is primarily related to \$30 million of inter-company receivables reclassified to funded depreciation investments which represents an amount related to anticipated collections on DVR patient accounts during the remainder of FY97 and \$705 thousand of investment income; net of \$11.6 million of such investments liquidated for general AGH and AHERF operating purposes.

The following rollforward highlights the cumulative effect of funded depreciation and trustee-held assets whose use is limited for qualified capital expenditures investments liquidated and up-streamed to AHERF for various corporate cash requirements since July 1, 1996:

Funded Depreciation and Qualified Capital Expenditures Investments Rollforward
(Dollars in Thousands)

Beginning balance at July 1, 1996	\$163,634
Investment income, net	3,645
Unrealized depreciation of investments	(618)
Transfers to AHERF	(60,265)
DVR receivable	30,000
Ending balance at October 31, 1996	<u>\$136,396</u>

Note that an additional \$6.5 million of funded depreciation investments were drawn in November through the 4th.

- Capital additions were \$1.8 million and \$4.3 million for the month and year-to-date periods ended October 31, 1996, respectively. October capital additions exceeded the Board-approved capital budget's average monthly investment amount of \$1.2 million by 50%.
- Other assets increased \$160 thousand and \$1.3 million for the month and year-to-date periods ended October 31, 1996, respectively. The primary reason for such monthly increase is due to AGH's share of earnings from the Gateway Health Plan, L.P., HMO investment of \$203 thousand. The key reasons for such YTD increase are the \$460 thousand of additional capital contributed to Pyramid (cumulative investment in Pyramid is \$1.26 million); AGH's share of earnings from Gateway of \$704 thousand; and the \$321 thousand of goodwill, net of accumulated amortization, paid on the acquisition of Franklin Masin's medical practice.

LIABILITIES AND NET ASSETS

- Trade Accounts payable increased \$4.1 million or 11 days of adjusted operating expense from September 30, 1996, to \$25.7 million, which represents 66 days of adjusted operating expense in A/P. Such is based on the Days in Accounts Payable calculation that excludes certain non-trade liabilities.
- Net unrestricted asset transfers to AHERF and ASRI to finance affiliates were \$2.8 million and \$11.1 million for the month and year-to-date periods ended October 31, 1996.

Continued

JD-DC0002743

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended October 31, 1996

INCOME STATEMENT

NET PATIENT REVENUE

ACUTE INPATIENT

Net Acute inpatient revenue is \$3.5 million or 13.6% OVER budget for the month. Such positive variance results primarily from total admissions exceeding budget by 247 or 10.0% - a significant increase considering that budgeted admissions are 80 or 3.3% greater than October, 1995 actual results (2,386). Additionally, the total net inpatient margin of 45.7% is 3.9% greater than budget (44.0%) - note that although masked by the overall favorable results, MA allowances are \$736 thousand or 20% over expected levels, such that the MA inpatient margin of 6.67% is 80% less than budget. The primary reason for such unfavorable MA return is \$860 thousand of retroactive MA DRG and Psych payment rate adjustments processed in October, 1996 for claims paid subsequent to December 31, 1995 based on the new MA Rate Agreement.

INPATIENT PERFORMANCE HIGHLIGHTS

	ACTUAL	BUDGET	VARIANCE	% VAR
--	--------	--------	----------	-------

NET INPATIENT REVENUE (\$s in thousands)

MC	\$13,754	\$11,034	\$2,720	24.7%
BC	7,052	5,062	1,990	39.3%
MA	311	1,793	(1,482)	-82.7%
OTHR	7,737	7,500	237	3.2%
TOTAL	\$28,854	\$25,389	\$3,465	13.6%

NET INPATIENT MARGIN

MC	50.23%	41.67%	0.086	20.5%
BC	42.03%	38.91%	0.031	8.0%
MA	6.66%	33.13%	-0.265	-79.9%
OTHR	53.51%	59.03%	-0.055	-9.4%
TOTAL	45.74%	44.00%	0.017	3.9%

CONTRACTUAL ALLOWANCES

MC	\$13,628	\$15,449	(\$1,821)	-11.8%
BC	9,726	7,948	1,778	22.4%
MA	4,356	3,620	736	20.3%
OTHR	6,522	5,296	1,226	23.1%
TOTAL	\$34,232	\$32,313	\$1,919	5.9%

ADMISSIONS

MC	920	948	(28)	-3.0%
BC	795	678	117	17.3%
MA	260	258	2	0.8%
OTHR	738	582	156	26.8%
TOTAL	2,713	2,466	247	10.0%

Continued

JD-DC0002744

**FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended October 31, 1996**

INCOME STATEMENT (continued)

NET PATIENT REVENUE (continued)

OUTPATIENT

Net outpatient revenue is \$1.1 million or 15% OVER budget, although positive, such result decreased from the first quarter favorable variance of 23%. Such decrease relates to the following key component; MA Outpatient allowances equal total charges, such that MA Outpatient net is zero - PFSG representatives are investigating causes of such variance.

OPERATING EXPENSES

- Salaries and wages are \$1.1 million or 8% over budget, such unfavorable variance includes the following key components. AGH's "merit" salary increase plan implemented September 29, 1996 effectively increased the overall salary expense by approximately 3% per discussion with Frannie Moffat, HR, such results in approximately \$360 thousand of unbudgeted salary expense. Senior management approved 70 additional RN positions, of such, 43 new RNs were hired during October; such results in approximately \$100 thousand of unbudgeted salary expense. \$163 thousand of nursing unit overtime costs that are at least partially volume-driven, i.e., acute I/P days are 1,102 or 7.5% over budgeted levels.
- Patient care supplies are \$1.2 million or 23% over budget, such unfavorable variance includes the following key component. Medical and surgical supplies are \$901 thousand or 27% over budget, such includes \$480 thousand of Operating Rooms expense, which is most likely partially volume-driven (actual I/P and O/P cases unavailable as of report date); and \$150 thousand of Cardiac Lab expense, which appears to be primarily volume-driven (total I/P and O/P cases are 1,314 or 63.4% over budget; additionally, O/P cases are 317 or 110% over budget).
- Purchased services are \$847 thousand or 11% over budget, such unfavorable variance includes the following key components. Equipment rentals are \$265 thousand or 36% over budget, such includes \$292 thousand of out-of-period Central Processing expense related to specialty bed rentals from Hill-Rom and Kinetic Concepts for the five-month period from May through September, 1996. Other purchased services are \$580 thousand or 57% over budget, such includes \$174 thousand of out-of-period Medical Oncology expense related to Jameson Health System coverage by Oncology/Hematology Associates for the one-year period ended August 31, 1996.

11/14/96

FILE: P:\123\AGHFY97\ANAL\HIGH1096.WK4

JD-DC0002745

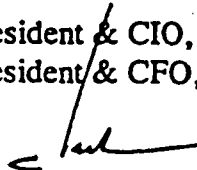
AHERF

***Allegheny Health, Education
and Research Foundation***

D.L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212

MEMORANDUM

TO: Joe Dionisio
Senior Vice President & CIO, AHERF
Senior Vice President & CFO, AGH

FROM: Jack B. Nelson 
Manager, Accounting & Financial Reporting, Pittsburgh

DATE: August 5, 1996

SUBJECT: AGH June 30, 1996 Financial Statements

Enclosed is a draft of the AGH June 30, 1996 interim financial statements and the financial statement highlights report for your review and comment.

As always, if you have any questions or comments, please do not hesitate to contact me at Ext. #2472.

Thank you.

JBN:kw
Enclosures
s:\k\w\jbn\2agh696fs.wpd

cc: Steve Spargo
Gary Manion
Al Adamczak
Jack Lydon
Gene Trout
Frank Insana

JD-DC0002746

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended June 30, 1996

BALANCE SHEET

ASSETS

- Net Patient A/R increased \$803 thousand or .75 days in A/R from May 31, 1996, to \$57.9 million, such represents 53.5 days in A/R. Such increase was primarily the result of inpatient DNFB and Outpatient accounts increasing \$2.8 million, less a \$2.0 million increase in third party settlements payable. As of June 30, 1996, patient A/R is net of the \$1.4 million Blue Cross advance for unpaid Par Plan Claims obtained February 7, 1996, such had an initial term of at least four months.

- Funded depreciation investments increased \$458 thousand from May 31, 1996, to \$151.3 million, such increase is primarily related to investment income. Such investment income includes \$30 thousand of unrealized depreciation related to the decrease in market value of equities and debt securities at June 30, 1996. Additionally, during June, \$49.8 million previously transferred to AHERF for DVR cash requirements was repaid from the proceeds of the Delaware Valley Obligated Group series of 1996 bonds and \$9.9 million of additional funded depreciation investments were liquidated for general AHERF operating purposes.

During FYE 6/30/96, a net \$58 million of funded depreciation investments were liquidated and up-streamed to AHERF for various corporate cash requirements, including the significant increase in DVR patient accounts receivable during same period. As noted in the funded depreciation transfers summary table below, \$35.1 million of such transfers related primarily to DVR cash requirements is unpaid as of June 30, 1996, such is reflected as a receivable from affiliates.

Funded Depreciation Transfers Summary

Gross Transfers out of Funded Depreciation	\$107,822,000
Repayment - DVR 1996 Bond Proceeds	(49,844,000)
Net Transfers out of Funded Depreciation	57,978,000
AGH Capital & Operating Uses	(22,926,000)
Net Unpaid DVR Transfers @ 6/30/96	<u>\$35,052,000</u>

- Capital additions were \$7.0 million and \$32.6 million for the month and year-to-date periods ended June 30, 1996, respectively. June capital additions were about three times greater than the YTD May 31, 1996 monthly average investment amount.

Continued

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended June 30, 1996

BALANCE SHEET (continued)

ASSETS

- Other assets decreased \$5.9 million for the month and increased \$2.8 million for the year-to-date periods ended June 30, 1996, respectively. The primary reasons for such monthly decrease are receipt of the \$19.9 million proceeds from the sale of Four Allegheny Center, part of which offset the \$6.0 million anticipated capital gain receivable; the transfer of the \$905 thousand heart pump investment to ASRI; recording AGH's \$226 thousand share of Life Home Health's net losses for the months of July, 1995 through May, 1996; plus reclassification of \$1.2 million of unrestricted endowment investments from investments limited or restricted as to use, such change relates to implementation of FASB #117, Financial Statements of Not-For-Profit Organizations. The two key reasons for such YTD increase are the abundant returns posted by the Gateway Health Plan, L.P., HMO investment, of which \$4.9 million of such earnings are reportable by us under the equity accounting method, net of the \$1.9 million partnership distribution; less the transfer of the \$905 thousand heart pump investment to ASRI.

LIABILITIES AND NET ASSETS

- Trade Accounts payable Increased \$9.2 million or 23 days of adjusted operating expenses from May 31, 1996, to \$31.0 million, which represents 90 days of adjusted operating expense in A/P. Such is based on the Days in Accounts Payable calculation that excludes certain non-trade liabilities.
- Net unrestricted asset transfers to AHERF to finance affiliates were \$2.9 million and \$33.6 million for the month and year-to-date periods ended June 30, 1996, respectively. As noted previously, both AIHG and MCPHU operating support have been reclassified to net asset transfers from purchased services expense with the FY 96 budget restated accordingly.
- Temporarily restricted net assets decreased \$6.3 million from May 31, 1996 to \$2.2 million. Such decrease relates to implementation of FASB # 117, Financial Statements of Not-For-Profit Organizations, such that FASB #117 requires the use of temporarily restricted net assets according to donor-designated purpose before unrestricted resources are used. Therefore, a thorough review of specific purpose funds, determined that \$6.3 million of such temporarily restricted net assets should be reclassified to unrestricted, primarily since the donor-designated purpose had been fulfilled, e.g., either the broad "furtherance of the department or division" or the specific "orthopedics - joint replacement research and training."

Continued

JD-DC0002748

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended June 30, 1996

INCOME STATEMENT

NET PATIENT REVENUE

INPATIENT

Net Acute inpatient revenue is \$2.4 million or 8.8% under budget for the month. Such unfavorable variance is primarily rate/margin driven, which appears to be a FY 96 trend, such offsets the positive result of total admissions exceeding budget by 121 or 5.0%. The total net inpatient margin of 43.6% is 18.2% under budget, such results primarily from Medicare and Blue Cross allowances exceeding budget and year-to-date average amounts and percentages.

See the following highlight tables for key details.

PERFORMANCE HIGHLIGHTS

	ACTUAL	BUDGET	VARIANCE	% VAR
--	---------------	---------------	-----------------	--------------

NET INPATIENT REVENUE (\$s in thousands)

MC	\$8,727	\$13,090	(\$4,363)	-33.3%
BC	7,061	5,926	1,135	19.2%
MA	862	1,772	(910)	-51.4%
OTHR	8,361	6,623	1,738	26.2%
TOTAL	\$25,011	\$27,411	(\$2,400)	-8.8%

NET INPATIENT MARGIN

MC	34.67%	52.10%	-0.174	-33.5%
BC	46.03%	51.13%	-0.051	-10.0%
MA	19.96%	38.52%	-0.186	-48.2%
OTHR	66.95%	66.77%	0.002	0.3%
TOTAL	43.63%	53.36%	-0.097	-18.2%

CONTRACTUAL ALLOWANCES

MC	\$16,451	\$12,035	\$4,416	36.7%
BC	8,280	5,665	2,615	46.2%
MA	3,457	2,828	629	22.2%
OTHR	4,129	3,427	702	20.5%
TOTAL	\$32,317	\$23,955	\$8,362	34.9%

ADMISSIONS

MC	849	937	(88)	-9.4%
BC	753	616	137	22.2%
MA	232	303	(71)	-23.4%
OTHR	728	585	143	24.4%
TOTAL	2,562	2,441	121	5.0%

Continued

JD-DC0002749

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended June 30, 1996

INCOME STATEMENT (continued)

PREMIUM REVENUE

- Premium revenue of \$273 thousand and \$817 thousand for the month and three-month periods ended June 30, 1996, respectively, represents the City of Pittsburgh Worker's Comp. program (City WC program) full-risk capitation revenue, which is essentially an Insurance premium accepted by AGH in return for providing directly or indirectly medical services to the City's employees on Worker's Comp. City WC Program direct operating expenses of \$418 thousand and \$1.4 million were incurred for the month and three-month periods ended June 30, 1996, respectively.

OPERATING EXPENSES

- Fringe benefits expense includes an \$812 thousand positive adjustment resulting from reduced allocations from AHERF, such is consistent with prior months.
- Patient care supplies are \$1.6 million or 32% over budget, such unfavorable variance includes the following three key components. Medical and Surgical supplies are \$1.0 million or 32% over budget, such includes \$214 thousand of Cardiac Lab expense primarily related to a greater volume of procedures than budgeted (I/P and O/P Cardiac Lab procedures are 1,156 or 63% over budget), offset by a lower cost per procedure (\$54 or 16.5% under budget); \$330 thousand of operating Rooms expense ; and \$107 thousand of central supply expense. Pharmaceutical supplies are \$351 thousand or 40% over budget, such appears to result primarily from significantly greater purchases or usage in the Pharmacy cost center. Laboratory supplies are \$247 thousand or 79% over budget, such includes \$210 thousand of Chemistry expense primarily related to \$183 thousand of out-of-period prior month (Dec & Apr) J&J clinical diagnostics supply invoices.
- Purchased services are \$2.9 million or 44% over budget, such unfavorable variance includes the following three key components. Equipment rental is \$809 thousand or 201% over budget, such includes \$502 thousand of Emergency Transport expense for recurring helicopter rental and related payments (\$400 thousand) and non-recurring helicopter repairs (\$100 thousand) paid to Keystone Helicopter Corporation; and \$242 thousand of MRI expense for May and June's Siemens capitated radiology contract fees. Other Purchased Services is \$1.1 million or 205% over budget, such includes \$399 thousand of City WC program actuarially determined medical service costs (\$316 thousand) and third party administrator fees (\$65 thousand); \$227 thousand of Dietary expense for prior month Aramark management services; \$74 thousand of Facility Engineering expense for May and June's Citicorp lease payments to finance the Honeywell Energy Management System; \$78 thousand of Home Care and Hospice expense primarily for contracted Rehab and PT services and Life Home Healthcare services.

Continued

FINANCIAL STATEMENT HIGHLIGHTS
ALLEGHENY GENERAL HOSPITAL
Month ended June 30, 1996

INCOME STATEMENT (continued)

OPERATING EXPENSES (continued)

- Administrative and general expense is \$1.9 million or 72% over budget, such unfavorable variance includes the following three primary components. Bad debts expense is \$843 thousand or 76% over budget, such is primarily driven by increased allowances for silent HMOs/PPOs included in commercial insurance accounts, and inpatient and outpatient accounts greater than 180 days old. Advertising is \$191 thousand or 159% over budget, such includes \$211 thousand of Corporate Communications expense for prior months (Jan & Feb) Westinghouse Group media advertising costs.
- Depreciation and amortization expense is \$3.0 million or 130% over budget, such unfavorable variance relates to a \$3.0 million year-end depreciation expense adjustment to correct budgeted and recorded fiscal Y-T-D expense to projected actual per Property, Plant and Equipment accounting's FY96 expected depreciation expense analysis. Such significant increase is primarily driven by additional depreciation required for the Northwest Wing project and other projects completed as of 6/30/95 and capitalized during FY96 in excess of estimated levels.
- Interest expense is \$935 thousand or 76% under budget, such favorable variance relates primarily to an \$890 thousand adjustment to capitalize interest expense on the Northwest Wing project.

08/05/96

FILE: P:\123\AGHFY96\ANAL\HIGH0696.WK4

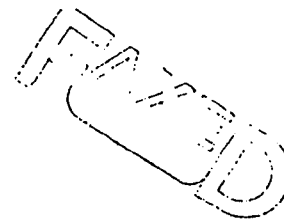
JD-DC0002751

EXHIBIT 0693

Allegheny Health Educ and Research Found

1st Version

TREASURY DEPARTMENT
D.L. Clark Building
503 Martindale Street
Pittsburgh, PA 15212



Telefax Number: (412) 442-2290

DATE/TIME: Tuesday, Apr-21-98 @ 12:50 pm	NUMBER OF PAGES (including cover): 2
TRANSMIT TO: David McConnell	
COMPANY/FIRM: AHERF ADMIN.	DEPARTMENT:
TELEPHONE #:	TELEFAX #:

Comments: [RE: Mellon Line of Credit Payoff]

David, in order to raise cash by no later than this Friday, Apr-24-98, Treasury would need to provide direction to investment managers *this afternoon*, to allow for the settlement period (trade date + 3 days).

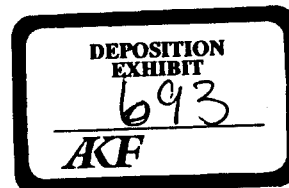
If you would like for Treasury to proceed with the liquidation, if you could please sign-off on the attached strategy and fax back to me (fax # 442-2290) -- or feel free to phone me to discuss further. Thank you, Sue.

cc: M.Martin

FROM:

	Mike Martin - (412) 442-2219
	Jim Henderson - (412) 442-2220
	Rich McKeown - (412) 442-2236
X	Susan Gilbert - (412) 442-2227
	Angela Maher - 412) 442-2227

	Kelly Mertz - (412) 442-2225
	Victor Capozzolo - (412) 442-2240
	Addie Saleik - (412) 442-2227
	Pat Walters - (412) 442-2221
	Jeff Alexander - (412) 442-2247



DBR-SG
01855

Raising of Cash Strategy
[Re: Mellon Line of Credit Payoff]
 Apr-21-98

Sources: 1] AHERF Unrestricted Endowment
 2] AUMC Funded Depreciation

MV @
3/31/98

1] **AHERF Unrestricted Endowment** 24,300,000

Manager Liquidations:

Acorn Fund (small-cap equity)	6,800,000	[100% liquidation]
Vanguard Fund (int'l equity)	6,800,000	[100% liquidation]
GSAM (core equity active)	5,000,000	
PIMCO (core fixed fund)	3,000,000	
FIRMCO (core fixed active)	3,000,000	
	<u>24,600,000</u>	

2] **AUMC Funded Depreciation**

Manager Liquidations:

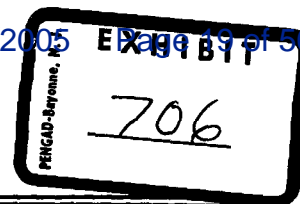
ARK (large-cap value equity)	40,550,300	FHS	[100% liquidation]
NAMCO (core fixed active)	5,000,000	FHS	
NAMCO (balanced)	<u>21,004,119</u>	AVH	[100% liquidation]
	66,554,419		

TOTAL SOURCES: 91,154,419

Approval to execute strategy:

David W. McConnell

EXHIBIT 0706



MANAGEMENT REPORT ON INVESTMENTS

MARCH 31, 1996

The market value of the System's investment portfolio totaled approximately \$640.0 million at March 31, 1996, a decrease of approximately \$19.1 million since the previous quarter-end. For the quarter, investment income and appreciation totaled \$15.2 million while net withdrawals totaled \$34.3 million.

I. EXECUTIVE SUMMARY

Restructuring Efforts:

- ❖ As previously reported to this Board, AHERF is restructuring the management of the system's financial assets. An accounting system is being developed internally to allow similar-type assets to be brought together into a common portfolio. Plans include the effective utilization of Master Trust structures in fiscal year 1996 to achieve economies of scale and overall operating efficiencies without compromising the integrity of the assets or the identification of ownership.
- ❖ Manager replacements have occurred during the May/June 1996 timeframe for the Pension Master Trust; Non-Pension Master Trust restructuring changes will occur thereafter. Changes will streamline AHERF's investment program, improve performance, eliminate style redundancies, and incorporate a lower cost structure for the organization.

MELL. CAP.
 CHG.
 DFA
 INT.
 B-WINE
 IAT
 MET LIFE
 SOL.
 FARMER
 G/S&H
 BZW

Investment Highlights:

PENSION FUNDS

- ❖ The Pension Master Trust's first-quarter return of 3.6% exceeded that of the policy portfolio (3.0%) as each of the major asset classes in which the Fund invests (domestic stocks, international stocks and bonds) outperformed their respective market indices.
- ❖ Among the domestic stock portfolios, Brandywine was the only actively-managed portfolio to underperform its benchmark during the quarter. The Cooke & Bieler balanced portfolio's return exceeded its benchmark (3.0% versus 2.2%) due to the good relative performance of its bond component, although longer term returns have been sub-par. The foreign stock portfolio managed by Vanguard outperformed the EAFE Index by 2.4%. Bond investments with both Investment Advisers and Metropolitan Life underperformed the bond market during the first quarter and over the longer term as well. As a result, these advisors (excluding Vanguard) and four others will be replaced in the very near future.
- ❖ The returns of the passive domestic bond and foreign stock portfolios at BZW Bardays Global Investors tracked those of their respective indices.
- ❖ Although the Pension Master Trust's one-year return of 20.4% lagged that of its performance benchmark, it slightly exceeded that of the average corporate pension fund (20.2%).

- ❖ The Pension Master Trust's greater-than-policy allocation to domestic stocks (63% versus 60%) proved favorable during the one-year period as domestic stocks outperformed bonds and foreign stocks for the past five quarters.
- ❖ While the Pension Master Trust underperformed its performance benchmark (11.3% versus 12.3%) over the most recent three years, it outperformed the average corporate pension fund (10.7%) and ranks at the 31st percentile of the EK&A pension fund universe.

FUNDED DEPRECIATION

- ❖ The total funded depreciation portfolio's first-quarter return of 2.8% exceeded that of its benchmark (1.5%) due to an overweighting in stocks relative to the performance benchmark and good relative performance by the active managers. Morgan Stanley, Vanguard, and Neuberger & Berman all outperformed their respective benchmarks during the first quarter. The new AHERF Treasury cash portfolio also outperformed its benchmark (1.4% versus 1.3%) during the first quarter.
- ❖ Over the one-year period, the return of the funded depreciation pool exceeded that of its benchmark (16.3% versus 15.6%). The excess performance is primarily attributable to greater-than-policy domestic equity allocations during the year, as domestic stocks outperformed bonds and foreign stocks by a significant margin during this period. Over this period, both Morgan Stanley and Neuberger & Berman underperformed their respective benchmarks, while the Vanguard portfolio significantly outperformed since its inception in March 1995 (21.8% versus 12.5%).

ENDOWMENTS

- ❖ The endowment assets managed by Mellon Private Capital Management slightly outperformed the EK&A Endowment Index during the first quarter (2.7% versus 2.6%) due to greater-than-average equity allocations (66% versus 58%). Over the one-year period, the endowment assets at Mellon outperformed the EK&A Endowment Index by 5.4% and their return ranks in the top quartile of the EK&A endowment fund universe. Strong performance over this period is again attributable to greater-than-average equity allocations.
- ❖ The performance of the MCP endowment assets managed by Cooke & Bieler slightly exceeded that of its benchmark during the first quarter (2.5% versus 2.2%). The MCP portfolio benefitted from an overweighting in stocks relative to its target of 50%. Additionally, the fixed-income component of the MCP portfolio outperformed its performance benchmark by 2.4%. Over the one-year period, the aggregate MCP endowment portfolio underperformed its benchmark by a sizeable margin (18.6% versus 20.3%). Much of the performance shortfall is attributable to the poor relative performance of the stock component.

- ❖ The SCHC endowment assets are invested in stock and bond index funds. The aggregate first-quarter return of 2.8% slightly exceeded that of its benchmark (2.6%). Over the one-year period, the return of the SCHC endowment assets slightly outperformed that of the performance benchmark (23.6% versus 23.2%), due to a slight emphasis of stocks relative to the benchmark.

SHORT-TERM

- ❖ The short-term portfolio managed by Prudential Securities underperformed its benchmark during the first quarter (0.2% versus 1.3%) due to extended maturities. In mid-December 1995, the investment management authority over the short-term assets at Mellon Bank was transferred from Mellon Bond Associates (MBA) to the AHERF Treasury department. The first-quarter return of the AHERF Treasury portfolio surpassed that of its benchmark (1.9% versus 1.3%).

HAHNEMANN MASTER TRUST

- ❖ The Hahnemann Master Trust's first-quarter return of 4.3% matched that of the performance benchmark. The Common Fund equity portfolio and Putnam Voyager Fund outperformed their respective benchmarks during the first quarter. With exception of The Common Fund equity portfolio, each of the Hahnemann portfolios outperformed their respective benchmarks during the one-year period, resulting in a favorable 21.3% return for the aggregate portfolio versus 20.0% for the benchmark.

AHSPIC SELF-INSURANCE TRUST

- ❖ STW Fixed Income Management is the sole investment manager of the AHSPIC trust assets and assumed responsibility for managing assets in February 1994. As a risk control measure, STW maintains the aggregate asset duration (i.e., weighted-average maturity) close to the duration of the liabilities of the trust. For AHSPIC, STW invests only in U.S. dollar-denominated fixed-income securities rated "AA" or better.
- ❖ STW does not forecast the direction of interest rates or the business cycle. STW attempts to add value by investing in undervalued bonds and can be expected to execute trades when opportunities to add value are identified. The manager also positions portfolios on what it deems to be the most undervalued parts of the yield curve.
- ❖ At March 31, 1996, the portfolio was invested 50% short-duration and 50% long-duration. Both sectors outperformed their respective benchmarks for both the first quarter and the one-year period ended March 31, 1996. *STW Short-Duration:* The portfolio's first-quarter performance benefitted from its 16% allocation to municipal bonds and 11% allocation to cash equivalents. *STW Long-Duration:* During the first quarter, allocations to asset-backed securities (23%) and municipal bonds (18%) contributed to the portfolio's above-market return.

- RETURNS
- PRESENT & FUTURE INITIATIVES

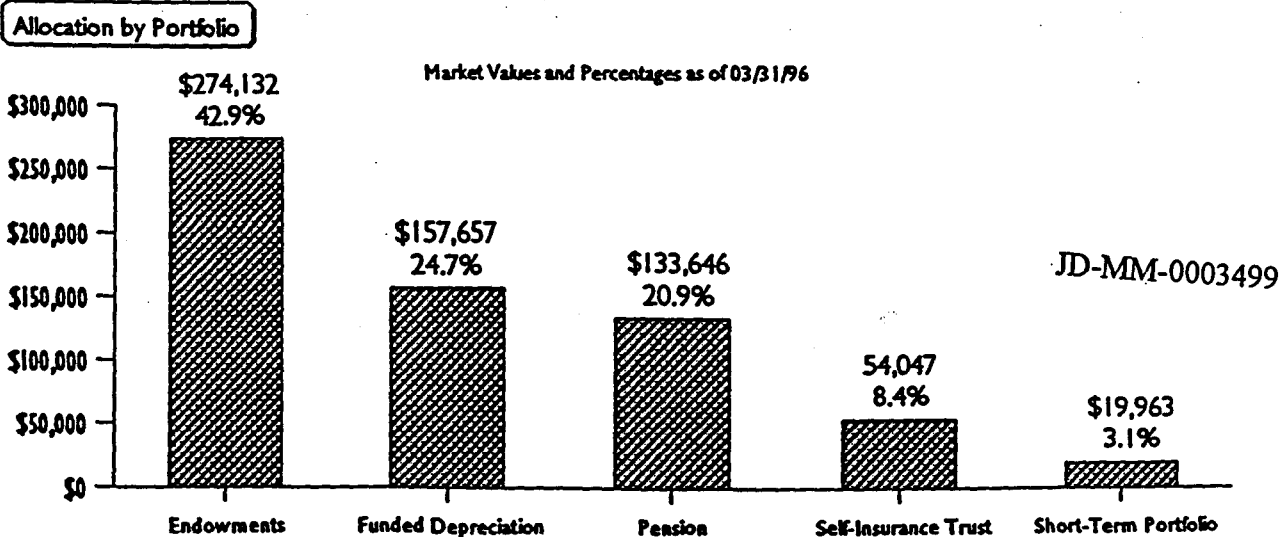
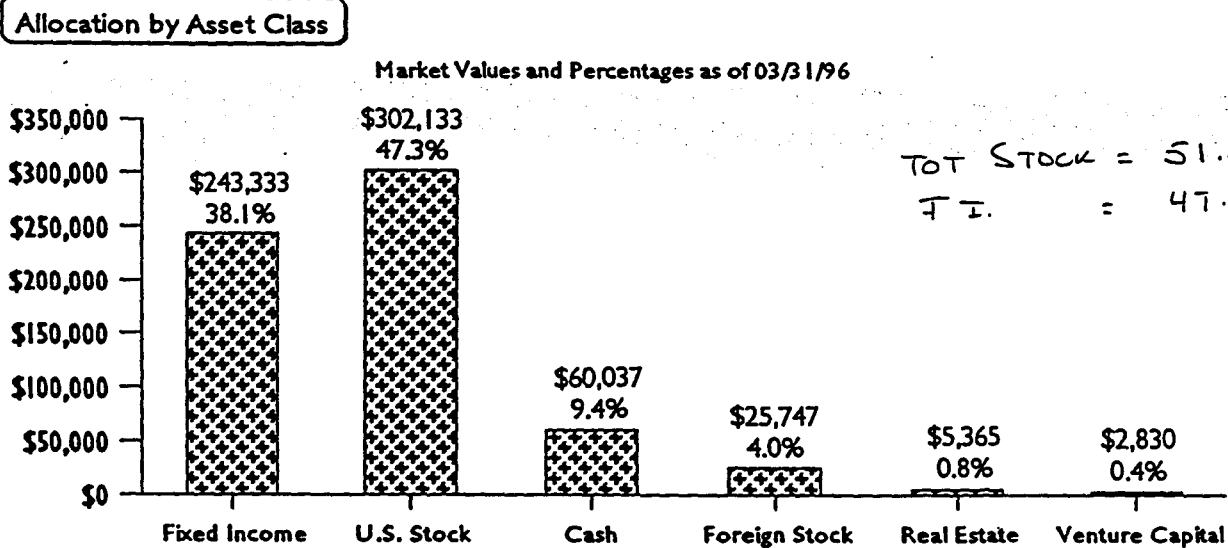
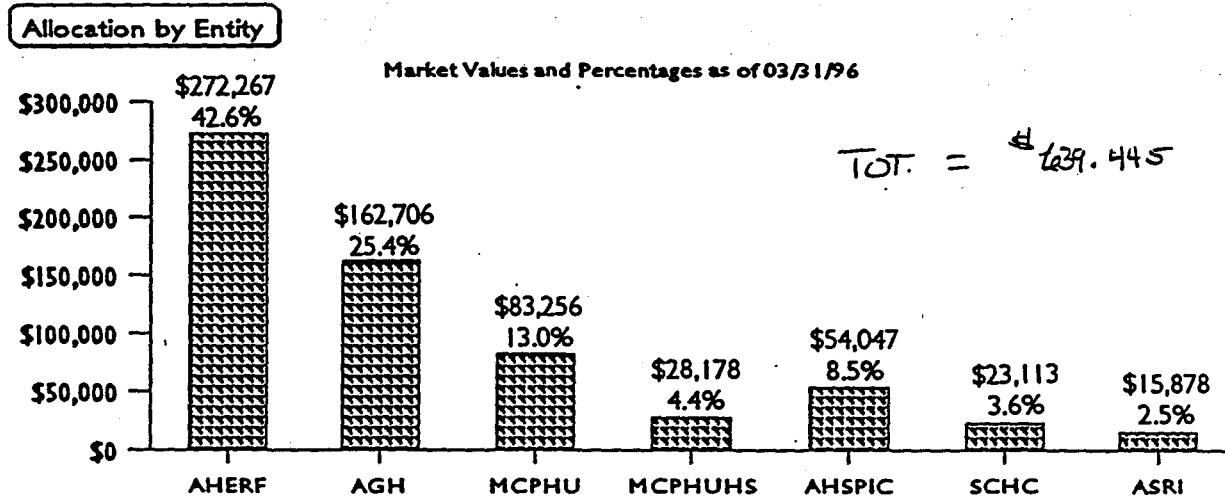
I.

II. MARKET COMMENTARY

- ❖ Despite rising interest rates, the U.S. stock market advanced for the fifth consecutive quarter, earning a return of 5.6% during the first quarter, as measured by the Wilshire 5000 Stock Index. Record cash flows into stock mutual funds fueled the market's first-quarter return, as increased demand contributed to the stock market's gains.
- ❖ Interest rates rose across all maturity levels during the quarter, resulting in declining bond prices. Investors reacted negatively to better-than-anticipated economic data and expectations that the Federal Reserve would not continue to lower short-term interest rates. The Lehman Brothers Aggregate Bond Index posted a -1.8% return in the first quarter.
- ❖ Non-U.S. stocks as represented by the Europe, Australia, and Far East (EAFE) Index earned a return of 2.9% (in dollar terms) during the first quarter of 1996. Although many non-U.S. markets produced strong returns, the flat performances of the Japanese and U.K. markets, which represented 55% of the Index, dragged down the Index's return.
- ❖ The real estate market advanced with its best quarterly results in over a decade. During the first quarter, the real estate market posted a 2.1% return, as measured by the EK&A Real Estate Index. The funds in the Index posted an average income of 1.9% and experienced value appreciation of 0.2%.
- ❖ In contrast to an otherwise recovering real estate market, retail properties suffered further writedowns during the quarter. The retail industry continues to evolve as new shopping formats emerge and consumer spending patterns change. As the industry restructures, retail construction has approached the historical peaks witnessed in the mid-1980's. Retail profits, however, remained constrained as heavy discounting by "big-box" retailers and weak sales growth have resulted in a shakeout.

III. ALLOCATION

The allocation of the AHERF investment funds are detailed below (\$'s in thousands):



III

IV. PERFORMANCE RESULTS

AHERF investment performance, net of all fees, by portfolio type and operating entity, for the periods ended March 31, 1996 is as follows: *(relevant benchmarks are included)*

PENSION

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96
AHERF Pension Master Trust	3.6%	20.4% ALF 20.2	11.3% 10.7
Reference Fund (60% Wilshire 5000, 10% EAFE, 30% Lehman Bros. Aggregate Bond)	3.0 - > EQ all +3% - Cash Flow	22.7 US EQ	12.3 US EQ

B-WIDE
C+B

FUNDED DEPRECIATION

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96
AGH	2.8%	16.3%	9.1%
Reference Fund (30% S&P 500, 45% Lehman Bros. Govt/Corp Intern., 5% MSCI EAFE Index, 15% Salomon Bros 1-3 Yr Govt/Corp Index, 5% 30-Day T-bills)	1.5	15.6 <div style="text-align: right;"> > POL. EXP TO EQ INT'L. GOOD M-SAD. </div>	8.9

ENDOWMENTS

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96
AGH, ASRI, AHERF	2.7%	25.3%	10.6%
MCPHU	2.5	18.6	9.2
Reference Fund (50% S&P 500, 50% Lehman Bros. Govt/Corp Intern.)	2.2	20.3 C+B	10.5 C+B

SCHC	2.8%	23.6%	12.0% ⁽¹⁾
Reference Fund (60% Wilshire 5000, 40% Lehman Bros. Aggregate Bond Index)	2.6 INTL	23.2	11.8 ⁽¹⁾

(1) Since inception date of 9/30/93

SHORT TERM PORTFOLIO

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96
AGH, ASRI, AHERF	1.9%	not available ⁽¹⁾	not available ⁽¹⁾
SCHC	0.2	6.6	4.6
Reference Fund (90-Day T-bills)	1.3	5.8	4.7
	GAT. MAT.		
(1) Inception date of 12/31/95			

HUH and HU MASTER TRUST (formerly Hahnemann University)

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96
Non-Pension Master Trust	4.3%	21.3%	11.3%
Reference Fund (Wishire 5000 Stock Index, Merrill Lynch 1-3 Year Treasury Index, and EK&A Real Estate Index. Allocations based on actual weights during respective historical periods)	4.3	20.0	9.8

AHSPIC SELF-INSURANCE TRUST ASSETS

	3 Months Ending 03/31/96	1 Year Ending 03/31/96	3 Years Ending 03/31/96 ⁽¹⁾
AHSPIC Short-Duration	0.2%	9.5%	5.7%
Reference Fund (85% Merrill Lynch 1-3 Year Treasury Index, 15% Merrill Lynch 3-5 Year Treasury Index)	0.1	8.5	5.7
AHSPIC Long-Duration	-1.7%	13.7%	7.3%
Reference Fund (50% Merrill Lynch 5-7 Year Treasury Index, 50% Merrill Lynch 7-10 Year Treasury Index)	-2.7	12.5	6.4
(1) Since inception date of 02/28/94			

S:\wp\murray\inv0596.paw

May-20-96

May-23-96

May-24-96

Jun-03-96

EXHIBIT 0707

MANAGEMENT REPORT ON INVESTMENTS
SEPTEMBER 30, 1996

The market value of the System's investment portfolio totaled approximately \$658.7 million at September 30, 1996, an increase of approximately \$6.7 million since the previous quarter-end.

I. INVESTMENT PROGRAM RESTRUCTURING

- ❖ During July and August of 1996, the Philadelphia-based investment portfolios were transitioned into the newly created AHERF Non-Pension Master Trust ("Master Trust") at Mellon Bank. The Master Trust allows for the commingling of all similar fund types (endowment, funded depreciation, special purpose) to occur across the System while maintaining the identity and ownership of the underlying funds. An internally developed system will function as the tracking mechanism for the individual endowments and specific purpose funds. The streamlined investment program has resulted in greater diversification; consistent and enhanced investment performance; reduction in investment manager and trust fees; and improved oversight by centralized management. Pittsburgh-based investment portfolios are expected to join the Master Trust during fiscal year 1997.
- ❖ During the transitioning, certain investment managers were terminated and replaced with a combination of existing managers and newly hired managers. A thorough due diligence of the AHERF-System's investment manager line-up was completed prior to the actual movement of the non-pension assets.

II. MARKET COMMENTARY

- ❖ Despite a large decline in July, the U.S. stock market (as measured by the Wilshire 5000 Stock Index) returned 2.8% for the third quarter of 1996. This marked the seventh consecutive quarter of positive investment gains for the U.S. stock market. For the year-to-date period, the stock market returned 13.4%.
- ❖ A surprisingly strong employment report during July renewed investor's concerns over inflation and sent the stock market tumbling. During July, the market lost nearly three percent of its value over a two-day period. However, the signs of a slowing economy in August and September eased the fears of an imminent interest rate hike by the Federal Reserve and sent the market's return higher for the remainder of the quarter.
- ❖ U.S. bonds (as measured by the Lehman Brothers Aggregate Bond Index) posted their best quarterly result of 1996 during the third quarter, earning a return of 1.9%. Despite interim fluctuations, the yield curve ended the third quarter essentially unchanged from the previous quarter. The bond market returned 0.6% for the year-to-date period.

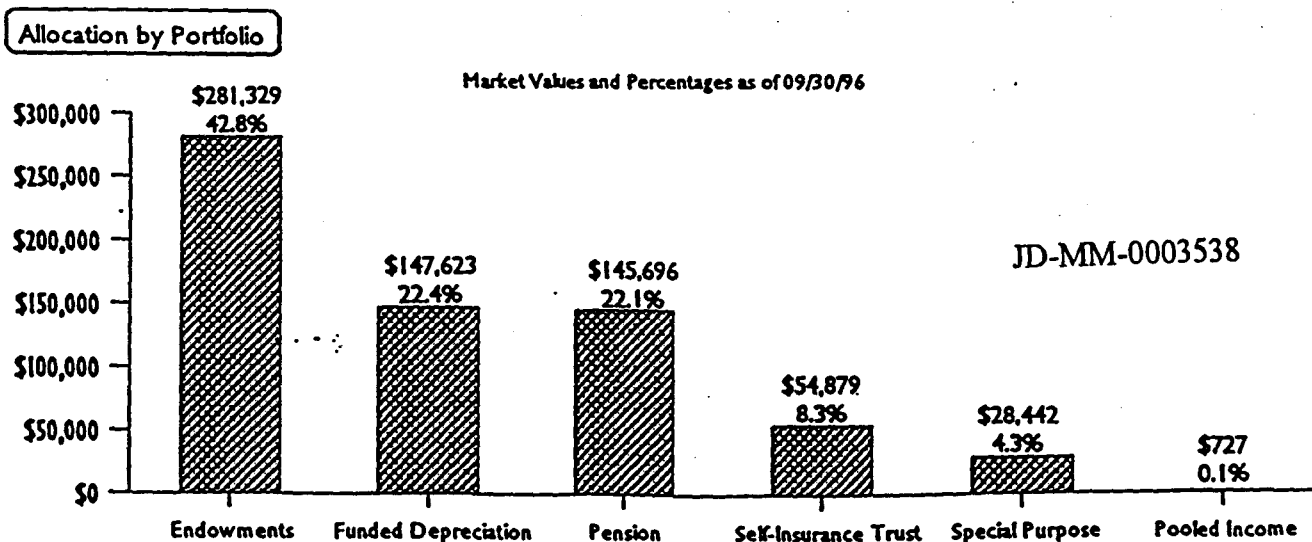
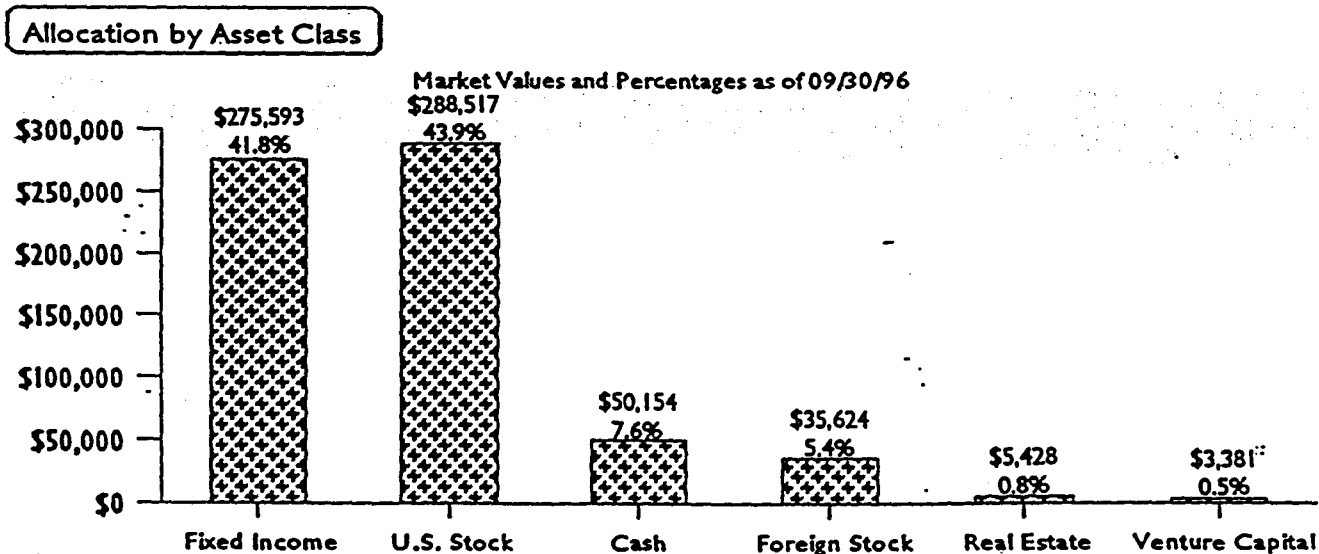
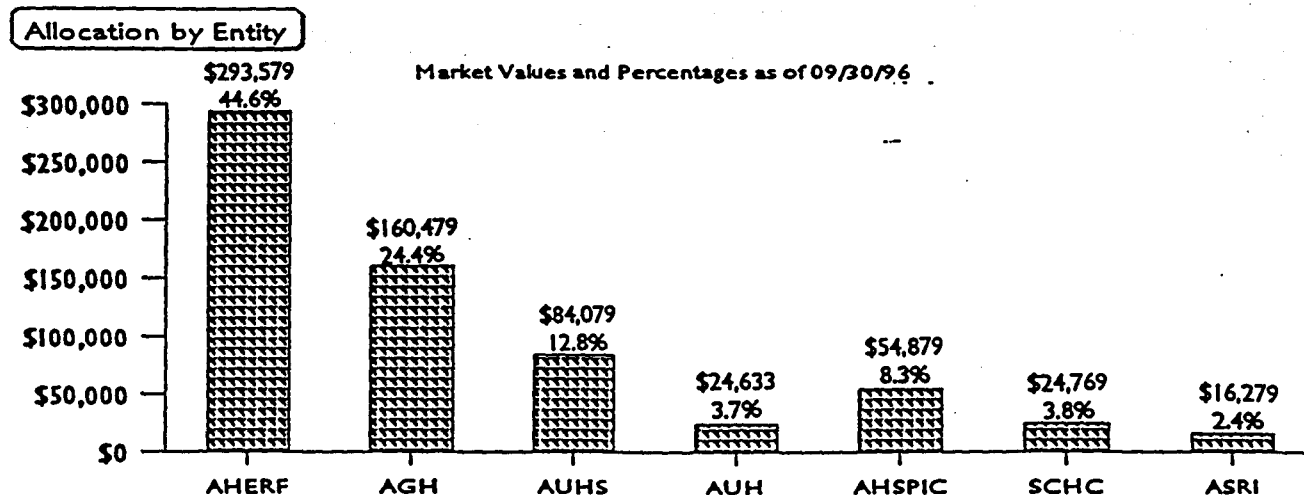


JD-MM-0003536

- ❖ The real estate market posted a 2.2% third-quarter return, as measured by the Ennis, Knupp & Associates (EK&A) Real Estate Index. The funds in the index earned an average income of 1.9% and an increase in property values of 0.3%.
- ❖ At September 30, 1996, the AHERF Pension Master Trust had a 3.0% (or \$4.1 million) allocation to real estate through Equitable Real Estate's *Prime Property Fund*. In October 1996, Equitable Real Estate hosted its annual investor conference to review real estate as an asset class as well as investment performance of its *Prime Property Fund*. Please refer to the attached memorandum (dated October 16, 1996) for a briefing on the conference.

III. ALLOCATION

The allocation of the AHERF investment funds are detailed below (\$'s in thousands):



IV. PERFORMANCE RESULTS

AHERF investment performance, net of all fees, by portfolio type and operating entity, for the periods ending September 30, 1996 is as follows (*relevant benchmarks are included*):

PENSION MASTER TRUST

	3 Months Ending 09/30/96	1 Year Ending 09/30/96	3 Years Ending 09/30/96
AHERF Pension Master Trust	3.3%	14.0%	12.0%
Reference Fund (60% Wilshire 5000, 10% EAFE, 30% Lehman Bros. Aggregate Bond)	2.3%	13.3%	12.0%

FUNDED DEPRECIATION - Pittsburgh

	3 Months Ending 09/30/96	1 Year Ending 09/30/96	3 Years Ending 09/30/96
AGH	1.8%	10.0%	8.6%
Reference Fund (30% S&P 500, 45% Lehman Bros. Govt/Corp Intern, 5% EAFE, 15% Salomon Bros. 1-3 Yr Govt/Corp, 5% 30-Day T-bills)	2.0%	9.8%	9.5%

ENDOWMENTS - Pittsburgh

	3 Months Ending 09/30/96	1 Year Ending 09/30/96	3 Years Ending 09/30/96
AGH, ASRI, AHERF	2.6%	14.9%	11.8%
Reference Fund (50% S&P 500, 50% Lehman Bros. Govt/Corp Intern)	2.5%	12.5%	11.0%

SPECIAL PURPOSE - Pittsburgh

	3 Months Ending 09/30/96	1 Year Ending 09/30/96 (a)	3 Years Ending 09/30/96
AGH, ASRI, AHERF	2.3%	6.3%	not available
Reference Fund (100% 90-Day T-bills)	1.4%	4.0%	not available

(a) Since inception date of 12/31/95

As mentioned earlier, the AHERF Non-Pension Master Trust was formulated in July and August of 1996. Therefore, the investment performance presented below is for one quarter only (2-month returns for some portfolios are noted). The Pittsburgh-based non-pension investments will join this Master Trust during fiscal year 1997.

NON-PENSION MASTER TRUST - Delaware Valley

	3 Months Ending 09/30/96
Endowment Portfolio	2.6%
Reference Fund (55% Wilshire 5000, 10% EAFE, 35% Lehman Bros. Aggregate Bond)	2.3%
Funded Depreciation Portfolio *	0.9%
Reference Fund * (100% 90-Day T-bills)	0.9%
Special Purpose Portfolio *	1.2%
Reference Fund * (100% Lehman Bros. 1-3 Yr Govt/Corp Bond)	1.5%

* Returns are for the 2-month period ending 09/30/96

AHSPIC SELF-INSURANCE TRUST ASSETS

	3 Months Ending 09/30/96	1 Year Ending 09/30/96	3 Years Ending 09/30/96 (b)
AHSPIC Short-Duration Reference Fund (85% Merrill Lynch 1-3 Yr Treasury, 15% Merrill Lynch 3-5 Yr Treasury)	1.6% 1.7%	5.2% 5.5%	5.5% 5.6%
AHSPIC Long-Duration Reference Fund (50% Merrill Lynch 5-7 Yr Treasury, 50% Merrill Lynch 7-10 Yr Treasury)	2.2% 1.7%	6.4% 3.9%	7.0% 5.8%
(b) Since inception date of 02/28/94			

s:\123\smm\board\per0996.wk4

s:\wp\murray\inv1196.paw

Nov-15-96

JD-MM-0003541

EXHIBIT 0708

24086a

34

**MANAGEMENT REPORT ON INVESTMENTS
DECEMBER 31, 1996**

The market value of the System's investment portfolio totaled approximately \$713.5 million at December 31, 1996.

I. INVESTMENT PROGRAM RESTRUCTURING

- ❖ The AHERF Non-Pension Master Trust structure currently houses all of the Delaware Valley-based non-pension investments. An accounting system has been developed internally which allows all of the various fund types of the System (endowment, funded depreciation, special purpose) to be commingled for investment purposes, while maintaining the identity and integrity of each affiliates' financial assets. It is anticipated that Pittsburgh-based investment portfolios of AGH, ASRI and AHERF will join this structure during fiscal year 1997. Given the very recent restructuring within these portfolios, the investment performance presented herein is for a 3-month period.
- ❖ One of the significant benefits of a master trust structure, including both pension and non-pension arrangements, is the ease and efficiency with which new affiliates may join in the investment pool, while accomplishing greater diversification, consistent and enhanced investment performance, and improved oversight by centralized management. Upon the entry of Pittsburgh-based assets into the Non-Pension Master Trust, aggregate savings for the pension and non-pension structures (including reduction in both investment manager and custody/trust fees) will approximate \$300,000, annually. This savings amount will only increase as additional affiliate investment portfolios join the pre-established master trusts, since the use of the lower end of both manager and trustee sliding fee schedules will be effected. The restructuring activities which have taken place to-date will result in fee savings of \$200,000, to be experienced during fiscal year 1997.

II. EXECUTIVE SUMMARY

Pension Funds

- ❖ With exception of FIRMCO, each of the Pension Master Trust's active managers outperformed their respective benchmarks during the fourth quarter. The Pension Master Trust's slight underweighting in U.S. stocks offset the benefits of individual manager excess returns, resulting in total Master Trust return equal to its benchmark.
- ❖ Goldman Sachs' fourth-quarter return of 10.8% was particularly impressive compared with the 8.3% return of the stock index and the performance of other active managers. Within the non-U.S. stock component, the Vanguard International Growth Portfolio continues to outperform the EAFE Index, posting excess returns of 2.6 percentage points during the fourth quarter and 8.5 percentage points for the year.



GOV 58499

- ❖ The Pension Master Trust's performance for the year is excellent, outperforming the performance benchmark and the average pension fund by 1.7 percentage points or more. Greater-than-policy equity exposure during the first half of the year, and above-benchmark performance by Goldman Sachs, the Acorn Fund and Vanguard contributed to the excess return.
- ❖ In early December 1996, the Finance Committee approved a recommendation to reduce the Pension Master Trust's policy allocation to U.S. stocks from 60% to 50%. Furthermore, the non-U.S. stock policy target was increased from 10% to 15% and bond policy targets increased from 30% to 35%. This revised investment policy will be effected in the Pension Master Trust's performance benchmark as of January 1, 1997.

Non-Pension Master Trust

- ❖ The Non-Pension Master Trust consists of six unitized investment vehicles - Global Equity, Aggregate Bond, Intermediate-Term Bond, Short-Term Bond, Cash and Real Estate. AHERF entities participating in the Non-Pension Master Trust will invest their assets in these units in accordance with their particular investment policies and objectives.
- ❖ As of December 31, 1996, the aggregate value of the Non-Pension Master Trust totaled \$142.8 million.
- ❖ At the end of December, the Endowment assets were invested in accordance with policy targets of 55% U.S. stock, 10% non-U.S. stock and 35% fixed income.
- ❖ The fourth-quarter return of the Endowment assets exceeded that of its benchmark as a result of the Global Equity Unit's overweighting in U.S. stocks. The assets are temporarily 100% passively invested in Barclays Global Investors' (BGI) equity, both domestic and international, and fixed-income funds.
- ❖ The Funded Depreciation and Special Purpose assets are temporarily invested in the Cash Unit and Short-term Bond Unit, respectively. The Cash Unit earned benchmark-like returns during the fourth quarter and since its inception (7/31/96). The Short-Term Bond Unit slightly underperformed during the quarter and since its inception (7/31/96).

Funded Depreciation

- ❖ The AGH Funded Depreciation Portfolio slightly underperformed its benchmark during the quarter due to below-benchmark U.S. stock allocations. The Morgan Stanley U.S. equity portfolio, although underperforming its benchmark (the S&P 500 Stock Index), outperformed the domestic equity component of the total fund's performance benchmark - the Wilshire 5000 Stock Index. The non-U.S. stock portfolio managed by Vanguard and the Neuberger & Berman fixed-income portfolio both outperformed their respective benchmarks during the fourth quarter.

- ❖ The Total Fund's performance for the year approximated its benchmark. Overweightings in U.S. stocks and good manager performance proved positive during the first quarter of calendar year 1996. Underweighting in U.S. stocks for the remainder of the year, combined with the underperforming Morgan Stanley portfolio offset the positive experience early in the year.

Endowments

- ❖ The Endowment assets managed by Mellon Private Capital Management outperformed the Ennis, Knupp & Associates ("EK&A") Endowment Index in all four quarters of 1996, resulting in a favorable one-year return. Excess performance over this period is attributable to greater-than average equity allocations, as well as good relative performance of the equity assets.
- ❖ The MCP, HU and SCHC Endowment assets participate in the Non-Pension Master Trust.

AHSPIC Self-Insurance Trust

- ❖ The Insurance Trust's assets are managed primarily by STW Fixed Income Management in its Short- and Long-Duration portfolios. The remaining assets are held as cash equivalents within the trust accounts and managed by PNC Bank in its money market vehicles. As a risk control measure, STW maintains the aggregate asset duration (i.e., weighted-average maturity) close to the duration of the liabilities. The securities in the portfolios include government and corporate securities, the majority of which are rated AAA or the equivalent, and the remainder of which are rated AA. STW will opportunistically invest in securities other than government or corporates, such as municipal securities.
- ❖ At December 31, 1996, the portfolio was invested 28% Short-Duration, 55% Long-Duration and 17% cash equivalents. For the year 1996, the Long-Duration portfolio outperformed its benchmark by 1.8 percentage points while the Short-Duration portfolio returned 0.70 percentage points below its benchmark.

III. MARKET COMMENTARY

GOV 58501

- ❖ The U.S. stock market, as measured by the Wilshire 5000 Stock Index, achieved a strong return for the second consecutive year, earning 21.2% in 1996 and 36.5% in 1995. The market was driven by the performance of large-capitalization stocks. Over the twelve-month period, large-capitalization stocks outperformed their small-capitalization counterparts by more than 4.0 percentage points.
- ❖ Equity investment styles produced varying results in 1996. The large-capitalization growth style outperformed large value, with smaller-capitalization styles, both value and growth, earning lesser returns. Despite interest rate volatility, the finance sector was the best-performing segment of the market, returning 33.0% for the year. Strong earnings among commercial banks, brokerage and securities houses more than compensated for the negative impact of rising interest rates.

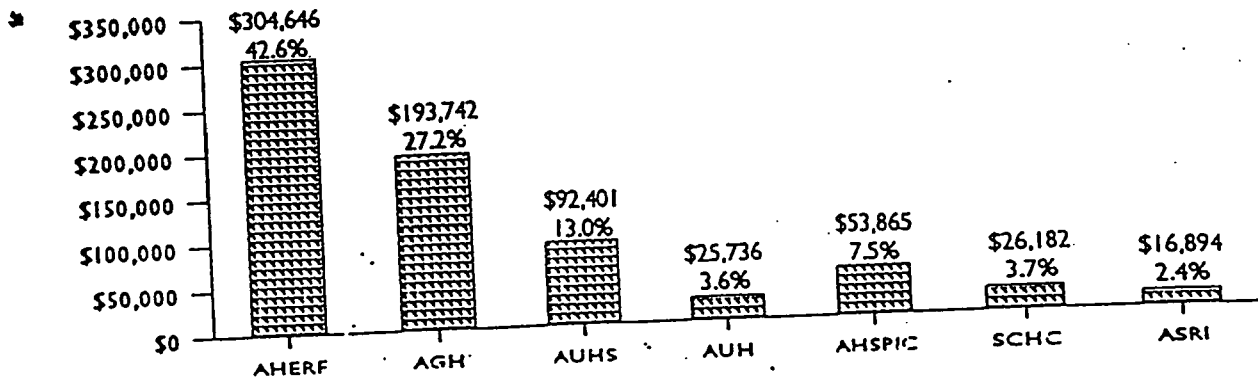
- ❖ U.S. bonds, as measured by the Lehman Brothers Aggregate Bond Index, earned a modest 3.6% return in 1996. Falling bond prices, prompted by investor concern over inflation, hindered bond returns during the quarter. High-yield bonds proved to be the exception, as the sector returned 12.4% in 1996. This was the result of inflows to high-yield mutual funds, low level of credit defaults and favorable performance of both the economy and low-quality issuers.
- ❖ The mortgage-related sector was the top-performing segment of the bond market in 1996, posting a 5.3% return. This sector's performance benefitted from a shorter duration relative to the other sectors as interest rates increased throughout the year, which typically reduces pre-payment risks.
- ❖ At December 31, 1996, the AHERF Pension Master Trust held a 3.0% (or \$4.2 million) allocation to real estate through Equitable Real Estate's *Prime Property Fund* ("Fund"). For 1996, *Fund* performance registered a 10.6% total return (9.6% income plus 1.0% appreciation). The year marked the *Fund's* best total return since 1984 and best income return since 1975. Equitable management is forecasting double-digit performance for the *Fund* in 1997 and expect returns to strengthen as value gains reflect the strong income stream.
- ❖ The Equitable Companies, Inc. (parent organization of Equitable Real Estate) announced in January 1997 that they are exploring strategic alternatives with respect to reducing their exposure to the real estate industry. Thus, Equitable Real Estate is seeking an alliance with an organization that will serve to complement the strengths of Equitable Real Estate while expanding products and services and coinvestment opportunities with clients. As of this date, no definitive agreement or sale has been executed.

IV. ALLOCATION

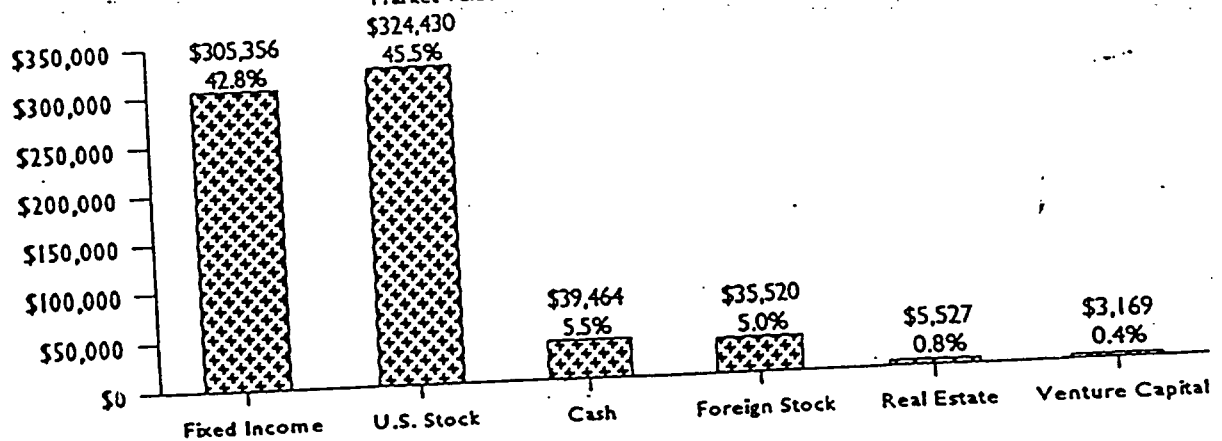
The allocation of the AHERF investment funds are detailed below (\$'s in thousands):

Allocation by Entity

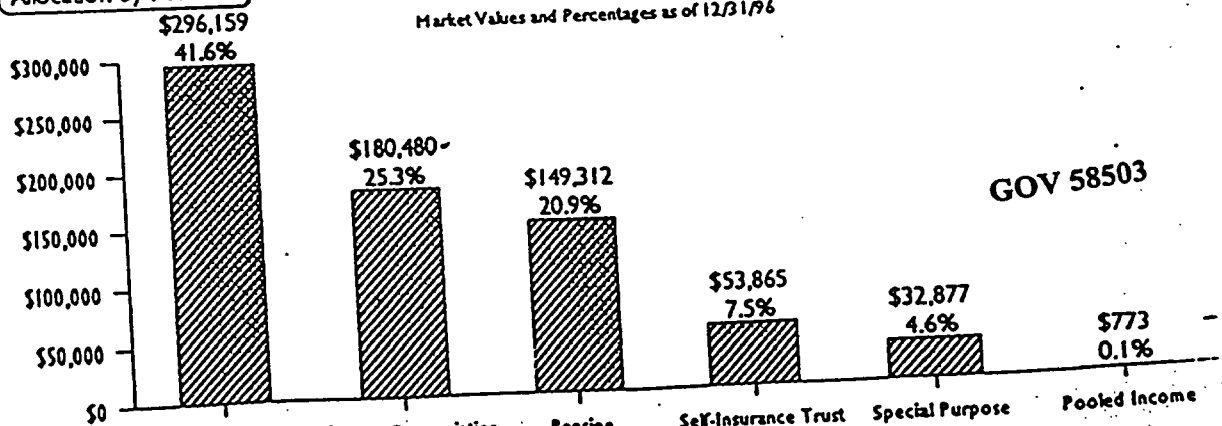
Market Values and Percentages as of 12/31/96

**Allocation by Asset Class**

Market Values and Percentages as of 12/31/96

**Allocation by Portfolio**

Market Values and Percentages as of 12/31/96



GOV 58503

39

V. PERFORMANCE RESULTS

AHERF investment performance, net of all fees, by portfolio type and operating entity, for the periods ended December 31, 1996 is as follows: *(relevant benchmarks are included)*

PENSION MASTER TRUST

	3 Months Ending 12/31/96	1 Year Ending 12/31/96	3 Years Ending 12/31/96
AHERF Pension Master Trust	5.1%	15.6%	12.8%
Reference Fund	5.1	13.9	13.4
(60% Wilshire 5000, 10% EAFE, 30 % Lehman Bros. Aggregate Bond)			

NON-PENSION MASTER TRUST - Delaware Valley Only

	3 Months Ending 12/31/96
Endowment	5.3%
Reference Fund (55% Wilshire 5000, 10% EAFE, 35% Lehman Bros. Aggregate Bond)	5.0
Funded Depreciation Portfolio	1.3%
Reference Fund (100% 90-Day T-bills)	1.3
Special Purpose Portfolio	1.3%
Reference Fund (100% Lehman Bros. 1-3 Yr Govt/Corp Bond)	1.9

GOV 58504

FUNDED DEPRECIATION - Pittsburgh Only

	3 Months Ending 12/31/96	1 Year Ending 12/31/96	3 Years Ending 12/31/96
AGH	3.8%	9.9%	9.6%
Reference Fund (30% S&P 500, 45% Lehman Bros. Govt/Corp Interm, 5% MSCI EAFE Index, 15% Salomon Bros 1-3 Yr Govt/Corp Index, 5% 30-Day T-bills)	4.1	9.8	10.5

ENDOWMENTS - Pittsburgh Only

	3 Months Ending 12/31/96	1 Year Ending 12/31/96	3 Years Ending 12/31/96
AGH, ASRI, AHERF	4.9%	13.9%	13.5%
Reference Fund (50% S&P 500, 50% Lehman Bros. Govt/Corp Interm)	5.4	13.2	12.5

SPECIAL PURPOSE - Pittsburgh Only

	3 Months Ending 12/31/96	1 Year Ending 12/31/96	3 Years Ending 12/31/96
AGH, ASRI, AHERF	1.6%	8.0%	not available ⁽¹⁾
Reference Fund (90-Day T-bills)	1.3	5.4	not available ⁽¹⁾
(1) Inception date of 12/31/95			

GOV 58505

41

AHSPIC SELF-INSURANCE TRUST ASSETS

	3 Months Ending 12/31/96	1 Year Ending 12/31/96	3 Years Ending 12/31/96 ⁽¹⁾
AHSPIC Short-Duration	1.9%	4.1%	5.6%
Reference Fund (85% Merrill Lynch 1-3 Year Treasury Index, 15% Merrill Lynch 3-5 Year Treasury Index)	2.0	4.8	5.8
AHSPIC Long-Duration	2.8%	3.8%	7.4%
Reference Fund (50% Merrill Lynch 5-7 Year Treasury Index, 50% Merrill Lynch 7-10 Year Treasury Index)	3.1	2.0	6.5
AHSPIC Steadfast Agencies	1.8%	3.4% ⁽²⁾	<i>not available</i>
Reference Fund (85% Merrill Lynch 1-3 Year Treasury Index, 15% Merrill Lynch 3-5 Year Treasury index)	2.0	3.7 ⁽²⁾	<i>not available</i>
(1) Since inception date of 02/28/94			
(2) Since Inception date of 06/30/96			

s:\wp\lmurray\lmv0297.paw
February 18, 1997

GOV 58506

EXHIBIT 0761

**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION
AUDIT COMMITTEE
Pittsburgh, Pennsylvania**

A meeting of the Audit Committee of Allegheny Health, Education & Research Foundation was held on Tuesday, October 15, 1996, at 10:00 a.m. in the Board Room of Allegheny General Hospital, Pittsburgh, Pennsylvania. The meeting was called pursuant to notice duly given in accordance with the Bylaws to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

Members Present

J. David Barnes
Anthony M. Cook
Robert M. Hernandez
Graemer K. Hilton
W. Bruce Thomas

Other Invitees

Sherif S. Abdelhak
Calvin Bland
William F. Buettner
(Coopers & Lybrand)
Carol Gordon
Lynn Isaacs
Dwight Kasperbauer
Donald Kaye, M.D.
David W. McConnell
Leonard L. Ross, Ph. D.
Anthony M. Sanzo
Diane K. Schrecengost
Cherry S. White
Nancy A. Wynstra, Esq.

Members Absent

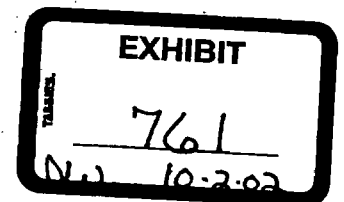
Ralph W. Brenner, Esq.
W. P. Snyder III

I. Opening of Meeting

The meeting was called to order by J. David Barnes, Chairman. Nancy A. Wynstra, Esq. kept the minutes. The Chairman declared that a quorum was present and the meeting was competent to proceed.

II. Additions to the Agenda

Mr. Barnes noted there were no additions to the agenda.



GOV 55940

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Meeting of the Audit Committee
October 15, 1996
Page 2

III. Approval Items

A. Summary of Discussions from the Meeting Held on April 8, 1996

The Summary of Discussions from the meeting held on April 8, 1996 was approved as presented.

B. Report on Fiscal Year 1996 Audited Financial Statements and Related Reports for AHERF and Subsidiaries

William F. Buettner reported that the financial statements had been audited by Coopers & Lybrand according to the audit plan approved by the Committee in April. Mr. Buettner noted that this has been a year of significant changes from a financial reporting perspective, with the institution of three major changes in accounting principles which required restatement of prior year financial statements. Specifically, AHERF made changes to:

- its method of accounting for contributions by adopting Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made",
- its method of reporting by adopting SFAS No. 117, "Financial Statements of Not-for-Profit Organizations", and
- its method of accounting for investments by adopting SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations".

Mr. Buettner further stated that Coopers & Lybrand had rendered unqualified opinions for all AHERF audited entities. Discussion took place regarding the adoption of SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations" and the effect it will have upon the balance sheet. Mr. McConnell stated that he will study this and work with Coopers & Lybrand on the related issues and bring any recommendations to the next meeting. He noted that only one year's worth of financial statements are being presented at this time due to lack of comparability. Mr. Barnes noted that this has been a tough year from a P&L standpoint but that the strategies which have been put in place to manage the organization's finances seem to be working. Mr. Abdelhak

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

Meeting of the Audit Committee

October 15, 1996

Page 3

noted that, system wide, the various entities absorbed approximately \$82 million in negative adjustments during this fiscal year, and that there has been a 6% increase in market share system wide. He further noted that, to the best of his knowledge, Allegheny University of the Health Sciences is the only university that includes depreciation as an expense. He stated that, while last year was a very challenging year, all of the Allegheny organizations performed in an extraordinary manner. Mr. McConnell then reviewed the changes that have taken place in the Billing Department during the past Fiscal Year, noting that the present focus on Accounts Receivable has resulted in improvement, particularly in Pittsburgh. Mr. McConnell further noted that Coopers & Lybrand provided a debt compliance verification letter for each outstanding debt obligation requiring such annual verification. Following discussion and upon motion duly made and seconded, the Audit Committee recommended that the Board of Trustees of AHERF approve the following resolution:

RESOLVED, that the Allegheny Health, Education and Research Foundation Board of Trustees approves the Audited Financial Statements and the related debt compliance letters for Fiscal Year 1996; and

FURTHER RESOLVED, that the Board instructs the Secretary to append copies of the accepted Fiscal Year 1996 Financial Statements and related debt compliance letters to the original minutes of this meeting.

C. Fiscal Year 1996 Reports on AHERF Internal Controls

William F. Buettner reported that Coopers & Lybrand had reviewed internal controls within AHERF and its Obligated Group entities and stated that there were no matters noted during the audits that would be considered to be material weaknesses in the internal control structure. The letter reporting on the absence of material weaknesses is being provided to enable AHERF and its affiliates to comply with Medicare regulations requiring that such reports be included as an attachment to the Medicare Cost Report. All prior year comments made by Coopers & Lybrand have been adequately addressed by management. Upon motion duly made and seconded, the Audit Committee recommended that the Board of Trustees of AHERF approve the following resolution:

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Meeting of the Audit Committee
October 15, 1996
Page 4

RESOLVED, that the Allegheny Health, Education and Research Foundation Board of Trustees accepts the Coopers & Lybrand Report on Internal Controls as presented; and

FURTHER RESOLVED, that the Board instructs the Secretary to attach a copy of the Report to the original minutes of this meeting.

IV. Information and Discussion Items

A. Coopers & Lybrand Management Letter and AHERF Management Response

David W. McConnell noted that the detailed Coopers & Lybrand management letter provided AHERF with system-wide internal control observations. William Buettner stated that the letter was provided to suggest enhancements to the control environment within AHERF, and he reiterated that no material control weaknesses were identified by Coopers & Lybrand during its audits. Mr. Buettner reported that the complexity of hospital billing and collection of accounts receivable within the AHERF system was recognized. Recommendations were made to management in order to streamline billing activity throughout the organization. A review of the Information Services Department identified various opportunities for improving AHERF's information systems controls and security. These were reported to management, and the recommendations were accepted. Mr. Buettner reported that security controls continue to improve, and there are no significant weaknesses. Improvement in the paper flow in the Human Resources and Payroll Departments needs to occur.

B. Coopers & Lybrand Required Communication to the Audit Committee

Mr. Buettner reported that the American Institute of Certified Public Accountants (AICPA) requires external auditors to communicate certain matters to their audit clients on an annual basis, and this letter is provided in compliance with such requirement.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

Meeting of the Audit Committee

October 15, 1996

Page 5

C. Discussion of Government Audits of Physicians at Teaching Hospitals (PATH)

It was reported that the Office of the Inspector General (OIG) for the Department of Health and Human Services has initiated a series of nationwide reviews of compliance with rules governing physicians at teaching hospitals (PATH) and other Medicare payment reviews. The focus of these reviews include compliance with Medicare rules affecting payment for physician services provided by residents and the propriety of coding and medical chart documentation supporting billed services. To date, settlements have been reached and widely publicized with two major teaching institutions, both of which are located in Philadelphia. Under the PATH program, the OIG is inviting interested organizations to pay for an independent review conducted by a third party, using the OIG's review protocol. To be eligible to participate in the PATH initiative, an organization must be an institution that receives graduate medical education payments under Medicare part A (i.e., a teaching hospital). Historically, Medicare's rules on the Part B payment for physician services provided by residents in a teaching setting have been generally acknowledged to lack clarity and consistent interpretation, and Medicare recently published new final rules to clarify teaching physician requirements. Although all possible ramifications of the PATH program are not yet clear, AHERF executive management believes that AHERF's best interests will be served by cooperating with the government under the protocols of the PATH program.

D. Review of AHERF's Matched Savings Plan

Diane Schrecengost reported that due to increased scrutiny by the Internal Revenue Service of tax-sheltered annuity programs offered by non-profit employers, an audit of AHERF's Plan was undertaken as a joint project involving Audit Services, AHERF's Tax Department, and technical experts from Coopers & Lybrand. Certain defects were identified during the compliance review, and it was determined that AHERF would take advantage of the voluntary correction program offered by the IRS. The estimated sanction amount of \$27,000 is expected for the deficiencies identified. The full report by Audit Services will be provided for review at the next meeting of the Committee.

AGERS AUDIT
10-15-96

GOV 55945

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Meeting of the Audit Committee
October 15, 1996
Page 6

E. IRS Intermediate Sanctions

REDACTED

F. Review of Audit Services Activities from March 1996 to Present (Pittsburgh and Delaware Valley)

Diane Schrecengost reported that summary reports of all Audit Services audits and/or reviews were provided for information, and there were no significant issues to be brought to the attention of the Committee. There is increasing focus on the part of Audit Services on billing and compliance. The Committee requested that an updated organization chart be provided.

Executive Session

The offer of Executive Session was made to the representatives of Coopers & Lybrand, and the offer was declined.

The offer of Executive Session was also extended to Audit Services, and the offer was declined.

The offer of Executive Session was made to management, and the offer was accepted.

Summary of Discussions - Executive Session

The Summary of Discussions from the Executive Session of April 8, 1996 was approved. Mr. Barnes noted that he had been asked by certain members of the AHERF management group if they could accept tickets to the Summer Olympics made available by certain organizations with whom AHERF does business. Mr. Barnes informed the Committee that he had told the management personnel that they could accept the tickets as long as they paid for the tickets (and the associated travel costs) personally.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Meeting of the Audit Committee
October 15, 1996
Page 7

Review of Executive Management Business Expenses

Ms. Schrecengost presented the results of Audit Services' annual review of Executive Management Business Expenses. She summarized the Fiscal Year 1996 review and noted that audit testing of a sample of Executive Expense Reports showed a very high level of compliance with institutional policies and Internal Revenue Service regulations among senior AHERF personnel.

Recommendation of Appointment of External Auditors

Mr. McConnell presented management's recommendation that the Audit Committee recommend to the AHERF Board that Coopers & Lybrand be reappointed to serve as external auditors for AHERF and its subsidiary organizations for Fiscal Year 1997. Mr. McConnell noted that management would report to the Audit Committee at its next meeting on the result of management negotiations with Coopers & Lybrand regarding audit fees. Discussion ensued regarding the proposed appointment and centered upon the level of confidence the Committee placed in Coopers & Lybrand while they are represented by Mr. Buettner as the Managing Partner for the AHERF audit. Mr. McConnell expressed his desire to have flexibility in having Ernst & Young (E&Y) stay on as auditors for the Graduate Health System's New Jersey operating units for the year ended December 31, 1996 due to E&Y's experience with the New Jersey operations and regulations. Mr. McConnell also noted that it would be his intention to have Coopers & Lybrand act as auditors for the Forbes Health System (FHS) for the year ended June 30, 1997, assuming that FHS becomes part of AHERF. Upon motion duly made and seconded, the Audit Committee recommended that the Board of Trustees of Allegheny Health, Education and Research Foundation consider the following resolution:

RESOLVED, that the Allegheny Health, Education and Research Foundation Board of Trustees reappoints Coopers & Lybrand as independent auditors of AHERF and its subsidiary organizations for Fiscal Year 1997.